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BY THE U.S. GENERAL ACCOUNTING OFFICE
**Report To The Chairman, Subcommittee On
African Affairs
Committee On Foreign Relations
United States Senate**

**Direct Contracting By The Agency For
International Development Can Be
Better Managed**

The Agency for International Development contracts with individuals, educational institutions, non-profit organizations, and private firms to carry out its foreign assistance projects, programs, and activities.

GAO examined the management of direct contracting and recommends

- quantifying, reporting, and monitoring the extent of, and reasons for, contract amendments and non-competitive procurements in order to improve competition, where possible, and
- better defining scopes of work so that contractors know what to do and the Agency knows what to expect.



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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

NATIONAL SECURITY AND
INTERNATIONAL AFFAIRS DIVISION

B-214235

The Honorable Nancy L. Kassebaum
Chairman, Subcommittee on African Affairs
Committee on Foreign Relations
United States Senate

Dear Madam Chairman:

As you requested, we examined certain aspects of direct contracting carried out by the Agency for International Development. This report recommends specific actions that the Agency for International Development should take to improve the management of direct contracting.

As you know, under 31 U.S.C. 720 the AID Administrator must submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the Agency's first request for appropriations made more than 60 days after the date of the report. Thus, as arranged with your office, we are sending copies of the report to the Chairmen of the four committees listed above and the Director, Office of Management and Budget. Copies will also be available to other interested parties who request them.

Sincerely yours,

A handwritten signature in cursive script that reads "Frank C. Conahan".

Frank C. Conahan
Director

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D I G E S T

The Agency for International Development (AID) is responsible for directly negotiating and awarding hundreds of contracts annually with individuals, educational institutions, non-profit organizations, and private firms, and for monitoring contractor performance. These contracts are referred to as direct contracting. As requested by the Subcommittee, GAO examined five aspects of the Agency's management of direct contracting

- the extent of competition,
- the adequacy and clarity of scopes of work issued by AID,
- the extent to which overhead rates and other indirect costs are validated and efforts made to minimize them,
- the extent to which the numbers and technical proficiency of contractor personnel and associated costs are held at the minimum levels necessary to get the job done, and
- the adequacy of AID monitoring and reporting of contractor progress.

NEED TO BETTER ANALYZE PROCUREMENT ACTIONS

For fiscal year 1982, AID reported \$16.8 million in noncompetitive contract awards exceeding \$100,000. However, the Agency does not report amendments to existing contracts. More complete information on noncompetitive contract actions would be available for congressional oversight if AID used its existing system to quantify all amendments that increase contract costs by over \$100,000. Of the twenty-seven contracts GAO reviewed, 16 included fiscal

year 1982 amendments of over \$100,000, totaling \$14.5 million. (See pp. 7 and 8.)

The contracts that GAO reviewed showed that total original awards of \$81.9 million increased by 63 percent, or \$51.8 million, through amendments. (See App. I.) Amendments generally do not require competition. However, the circumstances that prompt the issuance of an amendment may sometimes provide an opportunity for a competitive procurement instead.

Based on GAO's analysis and prior AID Inspector General recommendations, concerns raised by AID's Noncompetitive Review Board, and concerns raised by AID staff, GAO believes that AID should compile data that would quantify the extent of, and reasons for, contract amendments and noncompetitive procurements by its bureaus, offices, and missions. In GAO's view, this would (1) provide a more complete picture of noncompetitive contracting actions, (2) provide a better basis for judgments on the adequacy of competition, (3) identify possible competitive opportunities; (4) help in formulating actions to minimize factors that inhibit competition, and (5) assist AID in complying with new federal regulations for measuring and monitoring its efforts to promote competition. (See pp. 9 through 16.)

RECOMMENDATION

GAO recommends that the AID Administrator take action to better quantify, report and monitor competitive and noncompetitive procurement actions, including amendments; identify trends and establish goals for improving competition; identify factors that contribute to noncompetition and formulate actions to minimize them. (See p. 17.)

COMPLETE AND CLEAR SCOPES OF WORK CAN IMPROVE PERFORMANCE

The scope of work constitutes the essence of the agreement between AID and the contractor on what is to be done. GAO found statements of work in 21 of 37 active contracts to be vague, leaving many unanswered questions about contractors' obligations and what AID expected. The effects of vague scopes include delayed contract implementation and poor accountability. (See p. 19.)

Scopes of work can be more specific. Greater attention is needed on providing better technical advice and assistance, and more specific guidance as to what AID expects in the way of practical and definitive scope preparation. In particular, more detailed information, often readily available in project papers and implementation plans, can be incorporated into scopes of work. This would help ensure that money and resources provided through contracts are better directed to achieve contract objectives. (See p. 21.)

RECOMMENDATION

GAO recommends that the AID Administrator (1) give AID staff more specific guidance on the elements of work statements; (2) place greater emphasis during training on preparing specific scopes of work; and (3) improve the availability of technical assistance and lead time to design adequate work scopes. (See p. 25.)

VALIDATION OF OVERHEAD COSTS IN AID CONTRACTS

GAO's review of selected audits of overhead costs in AID direct contracts indicates that overhead rates are being validated regularly and total questioned costs do not appear to be unreasonably high. (See pp. 27 and 28.)

CONTRACTOR PERSONNEL

In determining which contractors will receive awards, AID gives substantial weight to the qualifications and availability of specific contractor personnel. Often, however, key personnel promised at the time contracts are awarded are not available for contract performance which results in project delays and other detrimental effects.

Several possible actions have been identified to minimize personnel switching. These include requiring letters from key personnel stating that they will be available for contract implementation, and monitoring contractors who may be consistently switching personnel. AID said that it would remind contracting officers that it is often more appropriate to establish minimum acceptable qualifications instead of naming individuals for contract performance. Under such conditions, AID noted that if contractors do not provide qualified personnel, it

is a breach of contract and appropriate remedies are available. (See pp. 33 and 34.)

AID MONITORING OF CONTRACTOR PROGRESS CAN BE IMPROVED

Most contracts GAO reviewed lacked performance indicators; and contractor progress reports tended to be generalized descriptions of project activities rather than assessments of actual versus planned performance.

Progress indicators are specific benchmarks, events, or circumstances that permit comparisons of the planned progress of the contract with actual performance at particular times. Without progress indicators, it is difficult to hold contractors accountable and monitor contract or project progress. Project success becomes difficult, if not impossible, to measure; and there is less basis for corrective action. (See pp. 35 through 38.)

GAO believes that contract monitoring can be improved if AID management attention is focused more on enforcing contractor reporting requirements, improving the performance and documentation of site visits; and maintaining more complete project files. Moreover, better compliance with existing procedures and requirements for clear progress indicators in contracts, and for periodic reports following the Agency's prescribed format, should result in strengthened contract monitoring. (See pp. 38 through 41.)

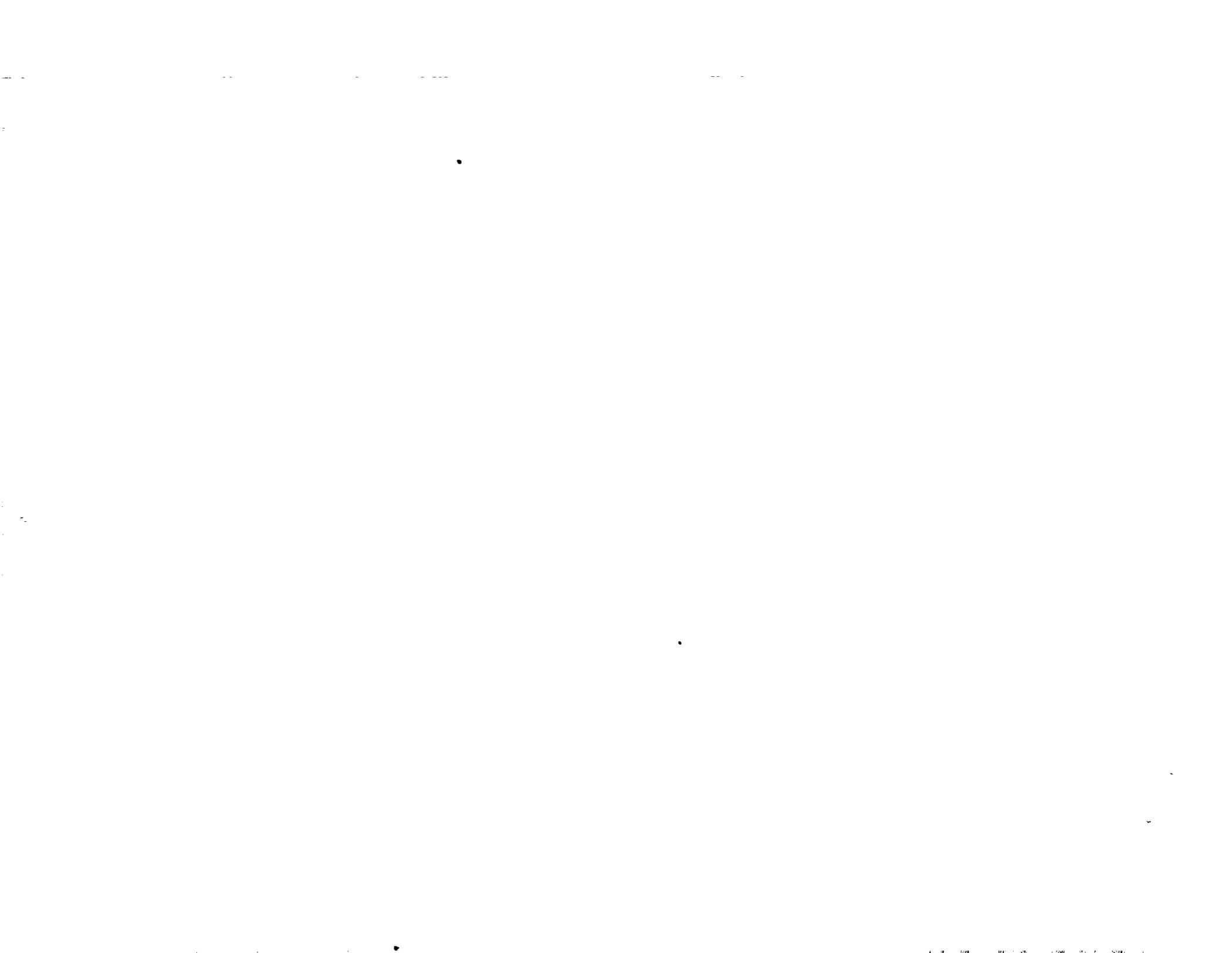
AGENCY COMMENTS

AID generally agreed with GAO's recommendations.

AID agreed to analyze the reasons for amendments issued during fiscal year 1984 to identify possible areas for increasing competitive opportunities. AID also agreed to provide additional training on how to prepare scopes of work.

Regarding possible actions to minimize problems of contractor personnel being switched, AID said it will remind its contracting officers to establish in contracts minimum acceptable qualifications instead of naming individuals. Another action the Agency could take would be to keep a record of each contractor's ability

to produce qualified personnel and consider this information in future awards. AID also recognized that its contract monitoring could be improved; AID said it will stress, during training courses, the need to establish benchmarks for assessing contractor performance and to clearly define reporting requirements. GAO believes progress indicators should also be stressed by bureau, office and mission management and staff when they develop contract requirements and review contractor progress reports.



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ABBREVIATIONS

AID	Agency for International Development
HHS	Department of Health and Human Services
DCAA	Defense Contract Audit Agency
GAO	General Accounting Office
IG	AID's Inspector General

CHAPTER 1

INTRODUCTION

The Agency for International Development (AID) carries out a large part of its foreign assistance projects, programs, and activities through direct contracts with individuals, educational or other institutions, or private firms. AID finances two types of contracts: (1) contracts that AID staff solicit, negotiate, award, and administer (AID direct contracts) and (2) contracts that host country staff solicit, negotiate, award, and administer (host country contracts). AID administered over 400 active direct contracts worth more than \$500 million as of September 1982. In addition, AID reported over \$2 billion in active host country contracts for project assistance as of October 1, 1983. We reported¹ previously on AID's management of host country contracting.

This report discusses the following five aspects of AID's management of direct contracting: (1) the need to better analyze the extent of and reasons for noncompetitive contracting actions, including contract amendments; (2) the need for more specific scopes of work for contractors; (3) the need to analyze and document whether using the modified total direct cost base has caused overhead costs to unfairly increase for educational institutions; (4) the causes, effects and possible solutions to the problem of contractor personnel promised during contract proposals, but not later provided for implementation; and (5) the need for improving monitoring of contractor progress by including progress indicators in contracts and contractor progress reports. AID contracting officers in the Office of Contract Management in Washington and at AID's missions and offices overseas solicit, negotiate, and award AID direct contracts. These staff and AID project officers, along with other AID staff, are directly responsible for planning contract needs and monitoring contract progress.

AID ACTIONS TO IMPROVE CONTRACTING

AID undertook an intensive review of direct contracts and grants between May and July of 1977. On October 5, 1977, the Administrator issued a directive to assistant administrators and heads of offices apprising them of the findings and directing them to ensure that project approvals comply with project management guidelines, include realistic procurement plans and schedules, and do not limit competition or inhibit good procurement practices.

In May 1982, pursuant to the Senate Appropriations Committee's request, AID reported on Program Monitoring and Implementation. In discussing contracting, AID stated that contracting

¹Managing Host Country Contracting Activities (GAO/ID-82-42, June 2, 1982).

and procurement procedures had contributed to delays in project implementation because AID staff sometimes were not adequately familiar with the complex contracting and procurement regulations and that project implementation plans at times were not adequate. Also, contractor scopes of work are not explicit enough; thus, AID could not hold them accountable for their timetables and performance, according to the report.

More recently, an independent evaluation prepared for AID by a consultant in July 1983 noted that a number of actions were being taken to improve contracting practices and procedures primarily aimed at reducing delays in implementation. These included:

- significantly increasing the authority of missions to execute contracts and grants, generally up to \$5 million for contracts and \$1 million for grants;
- establishing additional mission or regional contract officer positions to enhance effectiveness, adding up to 18 more positions over time; and
- arranging for an independent evaluation of its contracting procedures.

The consultant's report also included a number of findings and recommendations to improve AID's performance in contracting and grant processes and practices. These findings and recommendations, as they relate to the problems and issues discussed in this report, included actions addressed at maximizing competition; minimizing inadequate lead time and reducing concentrated procurement obligations in the last quarter. Also addressed were associated problems of poor contract scopes, limitations on competitive alternatives, and the need for a procurement scheduling and tracking system.

The consultant's report notes that a new system was established for evaluating contractor performance and using such evaluations in awarding new contracts. The Administrator approved new procedures, effective November 1982, that require offerors/bidders to submit references of similar or related services provided to AID. An AID technical evaluation committee is to then conduct a minimum of three reference checks on the offerors' past performance. In chapter 6, we address AID monitoring of contractor progress and suggest actions that would strengthen contractor performance evaluation.

We recognize that AID is in the process of considering what efforts to pursue regarding actions suggested in the consultant's report. Where our work and findings are corroborative,

we direct our conclusions, suggestions and recommendations to specific actions AID should consider in addressing the contracting issues.

OBJECTIVES, SCOPE, AND METHODOLOGY

On May 2, 1983, the Subcommittee on African Affairs, Senate Committee on Foreign Relations, requested that our examination of AID direct contracting include the following:

- the extent of competition,
- the adequacy and clarity of scopes of work in direct contracts issued by AID,
- the extent to which overhead rates and other indirect costs are validated and efforts made to minimize them,
- the extent to which the numbers and technical proficiency of contractor personnel and associated costs are held at the minimum levels necessary to get the job done, and
- the adequacy of AID monitoring and reporting of contractor progress.

We met with staff of the Subcommittee to discuss the objectives of the work, our approach, and the sufficiency of information needed to address the Subcommittee's concerns.

Competition, work scopes, and contract monitoring

With respect to competition, work scopes, and monitoring and reporting of contractor progress, our objectives were to examine the contracting process to (1) identify opportunities for increasing competition, (2) determine whether statements of work adversely affect contract efficiency, and (3) identify possible improvements in monitoring and reporting of contractor progress.

We initially looked at 27 contracts and examined documentation in AID's Office of Contract Management in Washington. Eighteen contracts were examined and followed up on in AID's offices overseas, including eight of the 27 contracts initially selected in Washington. We also held discussions with project and contracting officers in Washington and overseas.

The criteria we used in assessing oral and documentary data were AID's procurement regulations as published in the Federal

Register, title 41, chapter 7; AID's policy guidance as published in its Handbook 1, Agency guidance on planning, implementing, and monitoring project assistance as published in Handbook 3; and AID's Project Officers' Guidebook (Management of Direct AID Contracts, Grants, and Cooperative Agreements), dated June 1980 and September 1982.

To help us in selecting specific contracts for review, AID provided us lists of individual AID direct contracts which we summarize in table 1. As of February 1983, this data was the most current readily available. We did not assess the accuracy of the lists. Throughout this report, references to AID contracting refer to the contracting that AID does directly as distinguished from host-country contracting financed by AID.

Table 1 (note a)

Number and Amount of Active AID Direct Contracts
as of September 30, 1982

<u>Categories</u> (note b)	<u>Number</u>	<u>Amount</u>
Africa	97	\$166,170,198
Free World	126	144,702,055
United States	73	75,499,282
Asia	64	59,975,812
Near East	34	41,929,704
Latin America	<u>45</u>	<u>22,953,987</u>
	<u>439</u>	<u>\$511,231,038</u>

^aTable 1 includes some but not all data on mission-awarded contracts.

^bCategories indicate the locations where the contracts are implemented. ("Free World" indicates that the contracts are implemented in more than one location.)

The high dollar contracts we initially selected from contracts summarized in table 1 were valued at over \$130 million. In selecting contracts, we sought to obtain a broad representation of AID direct contract procedures and practices. For example, we selected contracts in each category as well as contracts awarded by both the Office of Contract Management in Washington and by AID's missions overseas. Contracts are awarded within the Office of Contract Management by three divisions; accordingly, we selected contracts awarded by all three. All of the contracts selected were active contracts; and most of them contained amendments increasing original awards.

We also reviewed: AID's Inspector General reports; non-competitive procurement decisions made during fiscal years 1982 and 1983 by AID's noncompetitive procurement review boards; and training provided to AID staff in direct contracting and project implementation.

Overhead validations and contractor personnel

Concerning overhead, our objective was to determine whether overhead rates and costs were being validated and finalized. Our analysis did not include an assessment of the rates themselves. We reviewed federal and agency overhead cost regulations, circulars, and procedures, and held discussions with officials in AID's Overhead and Special Costs Branch and Inspector General's Office. We examined contract audits performed by cognizant agencies for 12 non-profit and commercial contractors; held discussions with officials in the Department of Health and Human Services concerning overhead rates and costs for educational institutions; and obtained information to compare AID overhead policies and practices with those of selected foundations.

With respect to contractor personnel, the initial objective of assessing numbers and technical proficiencies was changed. We discussed the information limitations encountered and agreed with the Subcommittee to present observations and suggestions in the problem area identified--the availability of key personnel. (See chapter 5.) The contract data bases and methodology described in the preceding section were also generally used to address the personnel issue, including discussions with AID project and contracting officials in Washington and overseas.

From August to September 1983, we performed fieldwork at AID's Regional Economic Development Services Offices in Abidjan, Ivory Coast, and Nairobi, Kenya, and at AID's missions in Kenya, Sudan, Egypt, Indonesia, Sri Lanka, and Panama. At the offices and missions, we gathered oral and documentary data to address the aspects of contracting as requested by the Subcommittee by (1) obtaining the views of project officers and contracting officers and (2) examining selected contract files at the missions (as discussed in the chapters that follow).

We believe the problems identified in the contracts and amendments reviewed are not isolated. Although our findings cannot be projected in any statistical sense, they are consistent with those reported by both GAO and AID in other reviews and with those recently reported by numerous project and contracting officers in the field, and by AID's outside consultants in a July 1983 report. (See discussions of AID efforts to improve contracting in chapters 2 and 3.) GAO and AID have

issued a number of reports on major aspects of AID contracting.²

Our work was done in accordance with generally accepted government audit standards.

²AID reports:

Review of AID/Washington's Practices and Procedures for Competitive Procurement of Technical Services (report number 79-58, Apr. 11, 1979).

Improvements Needed in Management of AID/Washington Projects (report number 81-20, Nov. 28, 1980).

GAO reports:

Need to Improve AID's Project Management and Contracting Practices and Procedures (ID-78-22, Mar. 14, 1978).

Agency for International Development Needs to Strengthen its Management of Study, Research, and Evaluation Activities (ID-79-13, Feb. 12, 1979).

Efforts to Improve Management of U.S. Foreign Aid--Changes Made and Changes Needed (ID-79-14, Mar. 29, 1979).

Managing Host Country Contracting Activities (GAO/ID-82-42, June 2, 1982).

CHAPTER 2

THE NEED TO BETTER ANALYZE PROCUREMENT ACTIONS

Basic data over time would permit AID to quantify the extent of and reasons for noncompetitive contracting actions, including contract amendments, by its bureaus, offices, and missions. U.S. Government procurement policy and regulations state that contracts be awarded on the basis of competition to the maximum extent possible. In our opinion, basic data would permit a more informed judgment on whether the extent of competition for the agency is adequate; or whether efforts should be made to expand competition in certain areas.

Prior AID Inspector General (IG) recommendations to establish analytical data, new federal procurement regulations, concerns raised by AID's Non-competitive Review Board and concerns raised by AID staff about lead time and other factors affecting competition reinforce the need for AID to develop analytical data.

AID'S DATA ON NONCOMPETITIVE PROCUREMENT ACTIONS

Section 634(a)(2)(F) of the Foreign Assistance Act of 1961, as amended, requires AID to report to the Congress any contract award over \$100,000 which was awarded noncompetitively during the preceding fiscal year and the reasons why. A more complete picture of AID's procurement activities could be produced and could be available for congressional oversight if AID used its existing system to quantify amendments over \$100,000 that increase originally awarded contract costs.

On April 7, 1983, AID reported to the Congress¹ \$16,768,774 in contract awards exceeding \$100,000 and entered into noncompetitively during fiscal year 1982. Table 2 shows these awards.

An AID footnote states that the report does not include amendments to existing contracts. An AID internal report shows that, during fiscal year 1982, AID negotiated 204 contract amendments² of over \$100,000 each, for a total of \$120,791,388² for fiscal year 1982. Not all these amendments increased contract prices; for example, amendments may obligate portions of

¹The Chairmen of the Senate Committee on Foreign Relations and Senate Committee on Appropriations, Subcommittee on Foreign Operations, the Chairmen of the House Committee on Foreign Affairs and House Committee on Appropriations, Subcommittee on Foreign Operations; President of the Senate, and the Speaker of the House.

²These figures include only AID/ Washington-issued amendments, not amendments issued by AID's missions.

the total contract award as implementation progresses without increasing the total contract award. In the contracts we analyzed, 16 amendments did increase contract prices by \$14.5 million. Each amendment was over \$100,000 and was issued during fiscal year 1982; thus, a more complete picture of AID's noncompetitive actions would result if AID quantified such amendments.

Table 2

Fiscal Year 1982
Noncompetitive Contract Awards Over
\$100,000 Reported by AID to the Congress

<u>Number</u>	<u>Basis of award</u>	<u>Total amounts</u>
15	Personal services contracts	\$ 2,180,588
9	Contracts resulting from unsolicited proposals	2,733,518
15	Contractor selection based on predominant capability	10,228,313
5	Contractor selection based on impairment of the foreign assistance program	<u>1,626,355</u>
<u>44</u>		<u>\$16,768,774</u>

Appendix I summarizes the contracts analyzed and shows that contracts originally awarded for \$81.9 million increased by 63 percent or \$51.8 million through amendments. The noncompetitive awards and amendments total \$79.2 million, or about 59 percent, of the \$133.7 million total.

Appendix II summarizes the extent that amendments have lengthened contract terms. Most of these contracts are continued by amendments ranging from less than a year to 9 years beyond their original terms.

In our view, the significance of increased contract prices and contract time periods through amendments as revealed by our analysis of 27 contracts points to a need for AID to quantify the extent of and reasons for contract amendments for its contract universe. The extent of contract amendments for AID's universe of contracts is likely to be much more significant than our sample. AID had over \$511 million in cumulative obligations for over 400 active contracts as of September 30, 1982. AID does not systematically summarize and analyze the amount of, and reasons for follow-on contracting actions, such as amendments, that significantly increase originally awarded contract prices.

Doing so would allow the Agency to ascertain whether opportunities for expanding competition can be identified.

AID's computer system can quantify amendments that increase initially awarded estimated costs. On July 28, 1982, the Administrator established a congressional notification system; its purpose is to give individual members of Congress advance notice of contract awards and amendments of \$100,000 or more which are of benefit to their constituents. As a result of AID establishing the notification system, AID's computer system is used to record all increases to original awards; thus the system could also provide summary data on amendments of \$100,000 or more.

PRIOR IG RECOMMENDATIONS FOR ANALYTICAL DATA

AID's IG made recommendations about 5 years ago to establish analytical data to better determine the extent of and reasons for noncompetition, and to improve competition. These recommendations were primarily directed toward one of AID's noncompetitive areas--predominant capability. The 1979 IG recommendations were never implemented, and amended procurement regulations, effective May 1983, caused AID to conform its noncompetitive justification requirements for predominant capability to the noncompetitive justification requirements for unique capability in the amended procurement regulations; we believe the prior IG recommendations can be applied to the new unique capability noncompetitive justifications, as well as other noncompetitive areas, particularly for contract amendments.³

³AID procurement regulations (41 C.F.R 7-3.101-50(b)(3)) authorized a noncompetitive award for:

"Contracts for which one source is considered to have exclusive or predominant capability by reason of experience, specialized facilities or technical competence to perform the work within the time required and at reasonable prices."

Effective August 26, 1983, AID procurement regulations (AID procurement regulation notice 84-1, as published for AID Handbook 14) implemented an amendment to the Federal Procurement Regulations that caused AID to conform noncompetitive justification requirements for predominant capability under unique capability. See section that follows on the amended regulations for further discussion.

According to the IG report,⁴ an important aspect in reducing noncompetitive contracts is the availability of statistical data and information on what types of contracts are being awarded noncompetitively and why. The report said that no clear-cut definitions could be made on what types of end products could lend themselves to full (publicized) competition or what bureaus or offices awarded the greatest or least number of noncompetitive contracts.

The report said that AID should inventory its competitive opportunities by identifying competitive characteristics, for example, by program, by function, by end-product, by type of contract, by type of contractor, and by method of selection. Such data might be useful in attempts to

- establish a track record of competition for bureaus or technical offices,
- identify potential areas for improving competition,
- recognize existing (realistic) limitations on competition,
- achieve uniformity in applying exceptions to general rules, and
- develop a system for expanding the contract source universe.

The IG recommended that

- the Office of Contract Management initially (1) compile a list of predominant capability justifications applicable to contracts currently in active status and (2) use the list to examine noncompetitive characteristics within the various program areas (functions or end products);
- the Office of Contract Management, using the results of above analysis, compile competition statistics (rates) for each bureau and jointly identify areas where more competition is desirable or feasible; and
- the Office of Contract Management and the Bureau for Program and Policy Coordination devise a suitable reporting system to the AID Administrator to keep him informed on current trends

⁴Review of AID/Washington's Practices and Procedures for Competitive Procurement of Technical Services (audit report number 79-58, Apr. 11, 1979).

relating to the use of predominant capability justifications (e.g., a computer-based periodic summary, with adequate explanations containing the names of active contractors which have been awarded AID business beyond, say, 5 years, through either repeat amendments or new contracts).

As pointed out by the IG:

- there is a need to devise a reporting system which will disclose the identity of active contractors who have been getting business from AID through repetitive contract amendments or successive new contracting; and
- data is needed to determine what types of contracts are characteristically without competition in order to determine where greater competition is desirable or feasible. Bureaus should be held accountable for their respective rates of noncompetitive procurement.

According to an AID official and AID files, the IG recommendations were not implemented. At the time of the recommendations, the Office of Contract Management did not believe that compiling the data would be worth the staff resources required because AID's Noncompetitive Review Board reviews noncompetitive awards on a case-by-case basis. The contract office believes that any differences in competition among AID's bureaus would be because of the particular nature of the bureau's programs or the geographical differences in their operations. AID's IG considers the recommendations still open because they "are basic to identifying and managing certain aspects of the problem concerning competitive procurement" and existing reports "do not constitute a system of reporting that will provide the specific data cited."

Concerning AID staff resources required to establish analytical data, we note that at the time of the IG report AID's computer system was not recording amendments to contracts that increase contract prices. Starting in 1982, however, AID's computer now records such increases. Thus, AID can use existing computer capabilities to minimize staff resources required to develop analytical data.

PROCUREMENT REGULATIONS AMENDMENT

An amendment to the Federal Procurement Regulations caused AID to conform--in August 1983--its noncompetitive procurement justification requirements to those listed in the amended procurement regulations. These regulations require extensive written justifications for certain noncompetitive procurements, along with requiring more searching for other sources for the

intended procurements. The regulations also recommend certain techniques that agencies can use to measure their accountability for obtaining and promoting competition. We believe the amended noncompetitive justification requirements and the recommended techniques for measuring accountability for competition reinforce the need for AID to determine the amounts of, and analyze the reasons for contract amendments and other noncompetitive actions.

Amendment 230 to the Federal Procurement Regulations, effective May 9, 1983, added new procedures to minimize the number of noncompetitive procurements.⁵ The new procedures are based on recommendations made in the GAO report, Less Sole-Source, More Competition Needed on Federal Civil Agencies' Contracting (PLRD-82-40, April 7, 1982). For example, Amendment 230 caused AID to change, effective August 26, 1983, noncompetitive justifications based on predominant capability to unique capability. The amended Federal Procurement Regulations (41 C.F.R. 1-3. 108(a)) require certain written justifications and approvals for noncompetitive procurements based on unique capability (as did AID's former regulations for predominant capability). The major difference between the two sets of regulations for this one noncompetitive area, as well as certain others, is that the new regulations further require (1) a "market search," either from written or telephone contacts, to determine whether other qualified sources can satisfy the government's requirements, and (2) a sources-sought synopsis published in the Commerce Business Daily.

The amended regulations also recommend techniques for use in measuring organizational accountability for obtaining and promoting competition. These techniques are:

- periodic analyses of data on noncompetitive awards by such categories as purchasing office and product or service code;
- pinpointing of areas having the greatest opportunity for increasing competition by identifying areas having a high incidence of noncompetitive procurements; and

⁵Consistent with the amendment's attempt to minimize noncompetitive procurements, the Office of Federal Procurement Policy, OMB, on February 27, 1984, issued a policy letter to all executive departments and establishments restricting the use of noncompetitive procurements to "a finite list of circumstances under which noncompetitive procurements must be justified." In addition, procurement regulatory agencies such as the Department of Defense, the General Services Administration, and the National Aeronautics and Space Administration, were required to publish "tight controls" over noncompetitive procurements in the Federal Acquisition Regulations (FAR). The FAR, effective on April 1, 1984, replaced the Federal Procurement Regulations.

--measuring of incremental yearly progress.

In our opinion, the above recommended techniques would require AID to analyze the amount of, and reasons for, contract amendments and other noncompetitive actions by its bureaus, offices, and missions.

CONCERNS RAISED BY AID'S NONCOMPETITIVE
REVIEW BOARD MEMBERS AND OTHER AID STAFF

A Noncompetitive Review Board in Washington approves noncompetitive contract actions--including amendments--over \$250,000, and boards at missions approve such actions over \$100,000. We found no summary record over time of the decisions made by the Noncompetitive Review Board in Washington. However, concerns raised by Board members involve consolidating technical services contracts into single large contracts, inadequate lead time, other contractors having equal facilities, and scopes of work being written to conform to the contractor's capabilities. A few examples from Board deliberations are presented to illustrate the possible opportunities for increasing competition.

In a contract for conventional energy training, AID's legal representative on the Board stated his intention in July 1983 to appeal a Board approval of an \$11 million amendment to extend the contract to June 1987. The amendment would have added 3 years to the contract and would have increased it from \$3.5 million to \$14.5 million; also, the Board member stated that no attempts appeared to have been made to plan for competition, to divide the procurement so that small and disadvantaged businesses might have a chance to compete or get set-aside business, and to show actions that would avoid the need for subsequent noncompetitive procurement. As a result of these concerns the amount of the amendment was reduced from \$11,043,000 to \$2,393,000 and the contract completion date was shortened from June 1987 to June 1984.

During consideration of a \$1.4 million amendment (which was approved) in a contract for family planning and primary health care services, an AID official expressed concern to the Board in January 1983 that AID should commit itself to breaking up large procurements and fostering competition by minimizing continued consolidation of technical services contracts into a single contract which only the largest firms, universities and other large institutions are capable of performing. Concern was also raised about lead time needed to allow for competition.

In a proposed 1980 \$7.7 million amendment to a \$3.6 million contract for strengthening health delivery systems in West and Central Africa, a Board member argued that the required facilities were available at other institutions and that, since the original contract term was completed, AID should compete the additional substantial work. This particular amendment was not made part of the contract, although subsequent amendments

were made increasing the original award from \$3.6 million to \$8.1 million.

An IG report (noted on p. 10) stated that the Board, during the 6 months after its reestablishment on April 4, 1978, reviewed about 114 predominant capability cases worth over \$80 million. Board members were concerned that some justifications on contract extensions were approved in part because insufficient lead time precluded competition. Also some scopes of work appeared to have been written so as to conform to the contractors' organizational capabilities. The IG concluded that the emphasis was on "adequately justifying" noncompetitive procurement rather than confirming the absence of competitive sources.

Mission Staff Views

Mission staff identified a number of concerns that inhibit greater use of competitive contracting. We grouped the concerns raised by AID mission staff under two major categories--contractor experience and AID staff performance. We believe that establishing analytical data to incorporate these concerns would be the first step toward (1) identifying the reasons that most often contribute to noncompetition and (2) deciding what, or whether specific attempts should be made to expand competition in AID's bureaus, offices, and missions.

Mission staff views on contractor experience and availability

- Contractors are sometimes preselected for project design and/or implementation. A certain firm or university may be preselected to implement a project design based on prior experience, good reputation, host country desires, or political considerations. To assure selection of a preferred contractor, project managers sometimes word project documents in such a manner that restricts or precludes open competition. Also, a contractor may have an advantage of being selected for the project implementation phase by designing the project so as to preclude competition.

- Project officers and host-government officials want to maintain project continuity not only in terms of experience but also in terms of additional time and funds. Existing contractors have already established housing, office space, and other logistics. Bringing in new contractors on a project takes additional time and money and creates additional administrative burdens. For example, additional costs and time would be incurred for new contractors in terms

of housing, office space, etc., and there would be a whole new learning process by new contractors about the project with host government officials.

- AID cannot always attract qualified contractors. AID has difficulties obtaining sufficient contractor proposals for projects in developing countries or politically volatile locations and projects of small dollar value. In addition, it is sometimes difficult to attract a contractor with the language capabilities required in some locations.

Mission staff views on contracting and project officer performance

- Lead time is not sufficient to allow for competition. Pressure from the host government to expand or start projects, time pressures to obligate funds, and the desire to synchronize a new project with one already under way sometimes results in contracts being awarded noncompetitively to avoid the time necessary for competition. To some extent, AID project officers do not plan adequately, as evidenced by the fact that project designs and other paperwork are sometimes forwarded to the contracting office too late to allow for competition.
- Project officers' performance is rated on how well they design or implement projects/obligate money, not whether they consider more than one contractor for a contract. Consequently, project officers prefer to work with experienced contractors to have some assurance of good performance. This bias reduces competition.
- Contracting officers' performance is rated on how well they coordinate with AID's bureaus and missions "satisfying priorities and achieving obligation goals" and on whether AID's bureaus and missions are satisfied with the timeliness of the actions that the contracting officers process for them. This atmosphere acts as a major disincentive for contracting officers to encourage competition because if they slow up contract actions in trying to expand competition, their performance ratings and careers may be adversely affected.
- Procurement regulations do not require that the mission contracting officer or the area

contracting officer be a member of Mission Non-competitive Review Boards. According to two senior contracting officers, the contracting officer's authority is diluted because procurement decisions are made by AID staff who are more concerned with other factors, such as project obligations and expenditures, than they are with expanding competition.

AID ACTIONS ON COMPETITION UNDER CONSIDERATION

The July 1983 report evaluating AID contracting practices, prepared by a outside consultant, emphasizes the importance of reviewing the contract and grant selection process on a regular basis to ensure that they are as competitive as possible. The report recommends that (1) the Administrator stress the importance of maximizing competition to AID staff, and (2) that quarterly activity reports be prepared to include summary information on new contracting actions, the purposes for all amendments, and a general statement on the Agency's objective of maximizing competition. Our current discussions (March 1984) with AID's Office Contract Management indicate that quarterly activity reports do not quantify the extent of and purposes for amendments or other noncompetitive contract actions.

We encourage AID, as far as is practicable, to accept and address recommended actions aimed at maximizing competition. Our work in this area is fully supportive of the consultant's findings and our conclusions and recommendations are aimed at assisting AID by identifying some specific actions the Agency should take in order to achieve increased competition.

CONCLUSIONS

AID is not in a position to adequately judge whether the extent of competition for the Agency overall is adequate, or attempts should be made to expand competition in certain areas. AID needs basic data to monitor over time the amount of, and reasons for, contract amendments and other noncompetitive contracting actions by its bureaus, offices, and missions. Such data, in our view, would provide better judgments on the adequacy of competition and on what actions should be taken to minimize factors that inhibit competition. Also, a more complete picture of AID's noncompetitive contract actions would also be available for congressional oversight if AID uses its existing system to quantify amendments to all contracts that increase originally awarded contract costs in excess of \$100,000.

Prior IG recommendations offer specific ways that such data can be developed and made useful, and AID can use available computer data to help minimize staff resources needed. Establishing analytical data would also assist AID in complying with new

federal procurement regulations that list a number of techniques that can be useful to AID in measuring and monitoring over time its accountability for obtaining and promoting competition.

Identifying the reasons for amendments and other noncompetitive actions is essential in deciding what, or whether specific attempts should be made to expand competition in AID's bureaus, offices, and missions. Numerous reasons can account for noncompetition. For example, time pressures on project and contracting officers to obligate funds, start new, or continue existing projects, and performance ratings based on meeting these goals. These pressures result in the use of contractors in-country or experienced contractors in a manner that may preclude open competition.

RECOMMENDATION

To better judge whether the extent of competition is adequate or actions are needed to maximize competition, we recommend that the AID Administrator take action to better quantify, report, and monitor over time the amount of, and reasons for, amendments and other noncompetitive actions. Actions should include:

- using computer capabilities to better quantify competitive and noncompetitive procurement actions by bureaus, missions, and offices;
- using the information developed above to (1) identify trends and monitor changes in competitive and noncompetitive performance and (2) establish goals for improving competitiveness in AID contracting; and
- identifying the factors that contribute to noncompetition, such as inadequate lead time, and formulating actions to increase competition, such as (1) requiring project officers to plan adequate time for competition during project design and implementation and (2) modifying personnel performance standards of project and contracting officers to reduce or eliminate pressures that lead to noncompetitive procurements.

AGENCY COMMENTS AND OUR EVALUATION

Concerning contract amendments, AID accepted our finding that there is insufficient documentation on the reasons for such amendments. AID said that it will use computer resources to analyze the types of contract amendments issued during fiscal year 1984, to see if AID can identify possible areas for increasing competitive opportunities. We believe the analysis should not be restricted to only fiscal year 1984 and only to amendments; performing the analysis each year and including

other noncompetitive actions will quantify the full extent of noncompetition, identify trends and changes in competitive and noncompetitive performance, and will provide a basis for establishing goals for improving competitiveness in AID contracting.

CHAPTER 3

THE ADEQUACY AND CLARITY OF

SCOPES OF WORK

The scope of work, according to AID's Handbook 3 and the Project Officers' Guidebook, is the essence of the agreement between AID and the contractor on what is to be done and should bind the contractor to specific obligations. Thus, the scope should be as precisely defined as possible.

Vague scopes result in contract ambiguities, project implementation delays, and money spent for services that may or may not meet expected goals. We believe scopes could be more specific if AID gave contracting officials, project officers, and others better guidelines and training in preparing them. The following sections discuss some weaknesses in work statements, their causes and effects, and our recommendations for improvement.

VAGUE SCOPES CAN AFFECT AID AND CONTRACTORS

The scopes of work in 21 of 37 active contracts reviewed left many unanswered questions about what contractors were obligated to do and what AID expected. Clearly evident was the need for greater management emphasis on better defined work scopes.

The Project Officers' Guidebook states that

"The most essential part of any contract is the statement of work, or services to be performed . . . The statement should leave no question as to the intent of the parties."

"Words which have multiple meanings, are too generic, or are so parochial that only a very limited audience will understand them, should be avoided."

"It is only what we require contractors to do that we can legitimately expect to receive. We should not rely on professional ethics to get the Agency more than it specifically asks for."

The guidebook states that even in contracts calling for work-months of effort to be provided for a stated period, the scopes should specify in detail what AID wants the contractors to do and when AID wants it done. For example, work might be divided into discreet phases of accomplishments, each of which must be completed and approved before the contractor may proceed to the next.

The effects of vagueness in scopes include delayed contract implementation, misunderstandings, limited accountability and waste of valuable time and efforts. Examples of problems we identified follow.

In a contract for water management in Egypt, a mid-project evaluation prepared in November 1980 recommended that AID formally clarify performance terms to avoid misunderstanding and uncertainty during the final evaluation as to whether the contractor had fulfilled its obligations. About 1-1/2 years later, in April 1982, an AID contract negotiator noted that the project implementation order submitted by the mission to amend the contract for the ninth time was nonspecific. The negotiator pointed out that numerous cables to the mission had been necessary to clarify mission needs and resolve local currency questions. This amendment added over \$4 million and 2 years to the contract.

An amendment signed in January 1981 to a contract for technical assistance to Tanzania, took over a year to finalize in part because neither the mission, the technical office, nor the contractor had a good understanding of the work to be done or how it would be done.

The 1982 contract implementing the rural renewable energy project in Sudan tasked the contractor to "participate to the extent possible in developing and testing renewable energy technologies." The participation was to be "dependent on project funding, outside this contract, for materials, supplies, hardware, instrumentation, equipment, and other necessary items." The contractor spent 9 months after the award redefining the scope and developing an implementation plan. Even then, uncertainties existed about the plan's adequacy in terms of being able to measure progress toward the project's goals.

In September 1982, AID's IG also pointed out similar negative effects from vague scopes. For example, AID/Washington negotiated and awarded a \$4.5 million sole source contract in February 1980 to provide technical assistance for a project in Morocco. The IG found that the project accomplished very little due, in part, to an inadequate statement of work. The contract was reported to be too vague for establishing a contractual relationship and lacking in defining the responsibilities of the contract team and performance requirements.

PROJECT OFFICERS' VIEWS ON WHY
SCOPES ARE OFTEN UNSPECIFIC

AID staff at the missions visited cited the following causes for vague scopes of work.

--Project officers often do not know what specific services are needed, leaving the contractors

to define the specifics during implementation. Some contractors and project officers prefer to keep scopes vague to give themselves less accountability or more flexibility to make revisions as necessary in the project/contract.

--Vague scopes are often due to lack of attention to detail and/or poor planning. Time pressures to start projects/obligate funds and/or excessive workload cause hurriedly prepared scopes.

--Project officers lack the technical knowledge or writing skills to articulate good scopes of work. Also there is a lack of specific training, guidance, or examples to follow concerning good scopes of work, and there is inadequate reviews of scopes for adequacy at the missions.

The above cited reasons are similar to those cited in the past by AID staff in Washington in response to a 1980 review by the AID Inspector General.

POTENTIAL FOR IMPROVING SCOPES

There is potential for improving scopes of work in AID contracts. In our view this depends primarily on better technical advice and assistance and better guidelines and training of project officers and others who develop and write scopes.

Scopes can be specific

AID staff assert that scopes of work are sometimes necessarily vague because flexibility is needed during implementation or because technical assistance requirements cannot be defined until implementation. As shown by the following examples identified in our work, scopes can be specific and useful.

In the four contracts awarded in 1981 and 1982 and reviewed in Panama, the scopes appeared to be adequately descriptive. Each contract explained how the contract related to the project, the purpose of the contract, and the specific activities to be performed. Each contract specified the technical specialists to constitute the contract team and described the duties of each. Generally, duties were described clearly, although some vagueness existed concerning progress indicators. (Discussed more fully under monitoring in chapter 6.)

In a 1981 contract for English language training in Egypt, the statement of work and progress indicators were very specific because the types of courses, number of students, and time periods involved are specifically projected as targets or goals.

In a 1979 contract for manpower development in Sudan, the contract scope incorporated the project paper by reference.

Because the project paper describes the environment, project rationale, and activities to be undertaken, the contract scope was implicitly quite detailed. Similarly, a 1981 contract for participant training and technical assistance in Indonesia did not have a detailed scope but did state that the contractor was to perform in accordance with the project paper, which was detailed. In both cases, however, how project paper details relate to the specific contracts was not described in the contract scopes. When contract scopes and project papers can be integrated a much clearer understanding of what is expected can be achieved. This can be achieved only if the scope explicitly includes project paper details, as they are appropriate to the specific contract.

Some contracts require the contractors to prepare detailed work plans to implement the contract shortly after the contracts became effective. In a case like the 1982 contract for the rural renewable energy project in the Sudan, however, the contract did not require a detailed work plan but AID and the contractor found that a work plan was needed, and the contractor was tasked to prepare one. In our view, work plans developed after the contract award should complement, but not be substitutes for adequate scopes of work that should be part of the initial contracts.

Management emphasis and technical assistance are needed

AID staff in the Ivory Coast suggested that scopes of work could be improved if mission management provided more attention to them. Also, in the project design phase, AID should provide more technical assistance and involve the area contracting officers to better define scopes. AID staff in Kenya also said that the technical assistance that is available should be more extensively used. Project officers in Indonesia also said that unnecessarily vague scopes in the past should have been corrected during mission reviews of project implementation orders and contracts.

Also AID's IG has made similar suggestions for improving scopes. A November 1980 IG report observed that the responsibility for determining whether a statement of work was adequate should be in the requesting office. The report concluded that requirements for contracts were not being adequately reviewed by the requesting office before being sent to the Office of Contract Management. Contracting officers often had to go back to the bureaus to get improved statements of work, but even with this effort, the scopes were still weak. The IG thus suggested that bureau management officials place more emphasis on critically reviewing statements of work for adequacy. Our current work shows that management should still give more attention to work scopes.

Better guidelines and training are needed

AID staff suggested that better guidelines and examples are needed to show what good scopes of work look like and that better training is needed on how to prepare them. Because staff use other scopes as guides, AID staff suggested that training include the identification and use of particularly well written scopes. Such examples could also be made part of AID handbooks.

Concerning training, AID personnel in the countries visited--Egypt, Kenya, Ivory Coast, and Sri Lanka--recommended that mission personnel receive better and/or more frequent training on how to prepare good scopes of work. AID provides two training courses that contain various aspects of contracting: "AID Contracting for Non-Procurement Personnel" and the "Project Implementation Course."

Tables 3 and 4 below show the number of AID staff trained in these courses.

Table 3

Number of AID Staff Trained in Contracting for Non-procurement Personnel

	Fiscal year						Total
	1978	1979	1980	1981	1982	1983	
Washington staff	76	47	100	35	85	62	405
<u>Mission personnel:</u>							352
Paraguay	25						
Panama	30	41				15	
Philippines		33					
Indonesia		25					
Thailand		25					
Senegal			30				
Kenya			30	25			
Nepal				15			
El Salvador						32	
Honduras						26	

As shown in table 3, some of the missions have not received this training course for long periods. Moreover, although 10 missions have received training and training is planned in Jamaica, Ivory Coast, Thailand, and Zaire, AID has some 50 missions not receiving training in contracting for nonprocurement personnel and many of these have rather large numbers of personnel with extensive contracting responsibilities. Also, in evaluating the contracting course given in July 1983, participants

said that project officers needed more training in writing good scopes.

Table 4

Number of AID Staff Trained in
Project Implementation Course

	<u>Fiscal year</u>			<u>Total</u>
	<u>1981</u>	<u>1982</u>	<u>1983</u>	
<u>Washington staff</u>	34	-	22	56
<u>Mission personnel</u> (from 58 missions)	115	183	202	500

AID is increasing training in project implementation. In April 1983, the Administrator approved an increase in the number of courses to be held each year from six to eight during 1984 and 1985. AID's goal is to increase the number of principal officers in the project management group trained from 21 to 75 percent by the end of calendar year 1985.

At each session of the project implementation course, AID participants (from numerous AID missions around the world, as well as Washington) identify their most pressing problems and suggest ways to address them. AID staff have cited the need for clear and concise scopes of work and for training in preparing implementation orders, which include scopes of work.

According to the July 1982 report summarizing the participant feedback from the first 10 sessions of AID's project implementation course, participants said that clear and concise scopes of work are needed to clear up the different understandings that many contractor staff and AID staff have of project purposes and implementation procedures. Concerning project implementation orders, 28 participants (from 17 AID missions and AID's Regional Economic Development Services Office for East and South Africa,) attending AID's project implementation course in Mbabane, Swaziland, in September 1982, said that many project officers did not know how to draft a "good" project implementation order. Accordingly, they recommended that AID improve and expand in-service training in preparing these orders.

AID ACTIONS UNDER CONSIDERATION

AID is considering the recommendation made by its consultants in the July 1983 report, in concert with a similar requirement imposed by a May 1983 amendment to the Federal Procurement Regulations. It calls for establishing a procurement scheduling and tracking system for technical awards made in Washington and overseas. The purpose of the system includes

allowing offices to plan their procurements realistically, and encouraging them to distribute their procurement actions evenly throughout the fiscal year. Agency actions in this area, when fully implemented should help mitigate the problems with scopes that we discuss in the chapter. However, recent discussions with the Agency's Office of Contract Management (March 1984) indicate that actions thus far have been (1) to request that the new federal procurement regulations requiring acquisition plans be placed into the Agency's Handbook 3 on project planning and implementation; and (2) to set up a scheduling and tracking system to set obligation goals and record new obligations. Specific actions to establish a procurement scheduling and tracking system as recommended have not yet been developed.

CONCLUSIONS

Unless contract work statements are well-defined, neither the contractors nor AID can be expected to discharge their responsibilities in a manner that would promote the efficient and effective accomplishment of objectives.

AID's technical offices, bureaus, and missions need to do a better job of defining scopes of work so that contractors know what to do and AID knows what to expect. The lack of adequate lead time to carry out contracting actions contributes to hastily prepared and unclear scopes of work. Implementation work plans developed after the contract awards should complement, but not substitute for adequate scopes of work that should be part of the initial contracts.

Scopes could be more specific if AID provided more management attention and better guidance and training. In particular, greater emphasis is needed to ensure that detailed information, often readily available in project papers and their revisions, is incorporated into scopes of work when contracts are entered into. In addition, AID needs to provide staff more specific guidance than that in the Project Officers' Guidebook on how to write practical and definitive scopes. Greater emphasis on preparing scopes during in-house training also has excellent potential for sharpening the scope preparation skills of AID staff.

AID needs to take these actions because vague scopes can result in contract ambiguities, implementation delays, and money spent for services that may or may not meet expected goals. Moreover, top management insistence on well-defined scopes will help ensure that the money and resources provided are being better directed to achieving contract objectives and goals.

RECOMMENDATION

To minimize problems caused by vague or incomplete scopes of work in contracts awarded by AID, and to ensure that clearly

defined, reasonable, and practical scopes of work are developed and incorporated in AID-financed contracts, we recommend that the AID Administrator:

- develop and issue specific guidance on essential elements of adequate statements of work,
- place greater emphasis on how to prepare scopes during training for project officers and others who prepare and negotiate contracts and monitor contractor performance, and
- improve the availability of technical assistance (in-house or through qualified contractors) and lead time to permit the design of well defined scopes.

AGENCY COMMENTS AND OUR EVALUATION

AID said that specific guidance on the essential elements of contract statements of work is published in Appendix C of the Project Officers' Guidebook. We believe that AID needs to provide staff more specific guidance than that in the guidebook on how to write practical and definitive scopes. For example, because AID staff use other scopes as guides, we suggest that AID identify examples of particularly well written scopes in each of AID's functional areas--such as population, health, agriculture--and distribute these to AID staff who are responsible for writing scopes of work. In addition, these examples could also be made part of AID handbooks as appropriate, and could be used during training courses for AID staff.

Concerning training, AID said that it would canvass overseas missions regarding their needs for training above what is already provided; AID said that it was prepared to provide additional training, which may range from formal courses to self-study modules.

CHAPTER 4

THE EXTENT TO WHICH AID VALIDATES

AND MINIMIZES ITS OVERHEAD COSTS

AID's role in determining overhead rates and bases is relatively limited as prescribed by federal procurement regulations and Office of Management and Budget (OMB) circulars. In reviewing a limited number of cognizant agency audits of overhead costs in AID direct contracts, we observed that overhead rates are being validated and finalized regularly. In the audits we examined, questioned costs were \$418,468, or 5.6 percent of the total overhead costs audited.

Special circumstances connected with overseas operations may exist that could be increasing overhead costs to AID from using a revised base in its contracts with educational institutions as required by the Department of Health and Human Services. Finally, information provided by two large private foundations we queried shows that foundations vary on the payment of overhead costs. On the whole, however, foundations try to minimize overhead costs by allowing only overhead costs directly related to the project.

HOW OVERHEAD RATES ARE DETERMINED AND AUDITED IN AID CONTRACTS

Overhead costs are indirect costs incurred by contractors for the general operation of their organizations. These include headquarters expenses, such as salaries of officers and secretaries, utilities, rents, and costs of preparing bids on contracts. To recover such overhead costs, contractors bill AID for a portion of their total overhead costs. This portion is determined by multiplying a base by an overhead rate agreed upon by AID and the contractor. For example, total direct salaries could be a contractor's base and the overhead rate would then be total salaries divided by its total overhead costs.

Overhead rates can be provisional or final. Provisional rates are used for a particular period as agreed to by AID and the contractor until final rates are established for that period. Final rates are established for a particular period when (1) the contractor submits to AID actual costs incurred for that period together with supporting data and (2) these costs and data are audited.

A small staff in AID's Overhead and Special Cost Branch (within the Office of Contract Management) negotiates overhead rates and bases for over 100 active AID contractors, except educational institutions. The negotiated agreements include (1) the final and/or provisional overhead rates, (2) the bases to which the rates apply, (3) the periods for which the rates

apply, (4) the items treated as direct costs, and (5) the contracts to which the rates apply. The Department of Health and Human Services (HHS) negotiates, establishes and audits overhead rates that are used government-wide in contracts with most educational institutions. The Defense Contract Audit Agency (DCAA) also performs contract audits for various government agencies including AID, and recommends final overhead rates.

As the starting point for establishing final overhead rates, AID procurement regulations (41C.F.R. 7-7.5001-10 (b)) require contractors to submit for audit proposed final overhead rates and actual cost experience data to support these rates not later than 90 days after each fiscal year. The purpose of the audit is to examine records of a contractor to determine the acceptability of claimed direct and indirect costs and to recommend final and/or proposed overhead rates and bases supported by the audit.

Either AID's IG staff performs the audits or the IG asks the "cognizant audit agency" to make them. An AID official in the IG's office estimates that, due to limited staff, AID's IG staff conduct about 15 to 20 percent of the contractor audits requested; other federal agencies, such as DCAA, conduct the rest. The AID official also stated that some contractors are delinquent in submitting proposed final rates and supporting data within the prescribed 90 days, and that some audits are performed 3 to 4 years after costs are incurred.

THE OVERHEAD VALIDATION PROCESS

Our limited examination of contract and overhead files and contractor overhead audits showed that a validation process was in place and that total questioned costs appeared to be relatively reasonable and resolvable. One aspect with potential for improvement is maintenance of management information on the status of overhead validations and the extent and disposition of questioned costs for all relevant AID contracts.

At the time of our review, neither AID's Overhead and Special Costs Branch nor AID's IG maintained summary data to assess and monitor the coverage and frequency of audits and the extent of questioned costs. For example, we found no formal records to show when audits had been requested for particular contractors, what periods had been covered, when audits were due and completed, and what results had been obtained. On April 16, 1984, an IG official told us that IG/Washington is currently planning to put in place a system for monitoring the coverage and frequency of audits. According to the official, AID's Office of Information Resources Management has been asked to modify the IG's computerized contract and grant workload inventory system to show which agency is responsible for audit activity, when the audit was requested, the costs audited, and the audit report number. The IG official also noted that the IG/Washington

already has a system for maintaining open recommendation files on audits, including questioned costs, until the Agency has adequately acted on the recommendations. We believe the new monitoring system over time should focus on such areas as total overhead audited and total costs questioned so that AID can better monitor those contractors who experience questioned overhead costs and better direct audit resources accordingly.

AID HAS QUESTIONED INCREASED OVERHEAD COSTS FOR EDUCATIONAL INSTITUTIONS

AID has expressed concern about possible increased overhead costs resulting from the use of a revised base by educational institutions in establishing and applying overhead rates. We believe a satisfactory resolution to the question of appropriate overhead costs should be based on documented analyses by AID of prior and current overhead costs, including the special circumstances that would justify adjustment of prevailing overhead rates and bases.

Office of Management and Budget Circular No. A-88 requires one federal agency (rather than several different agencies) to negotiate an overhead rate and perform all the necessary federal auditing at a particular educational institution. For most educational institutions, the responsible federal agency is HHS. The objective of the circular is to promote a coordinated approach and to more effectively use governmental resources.

AID's Chief of Overhead and Special Costs Branch believes that overhead costs in AID's contracts with educational institutions increased because of Office of Management and Budget Circular A-21, dated February 1979. According to the Chief, this circular caused HHS to switch the basis for calculating overhead rates from direct labor to modified total direct costs; modified total direct costs include several costs besides direct labor, such as costs for fringe benefits, materials and supplies, travel, subcontracts up to \$25,000, and local currency.¹

According to the Chief, using the direct labor base to calculate overhead was more advantageous to AID than using the modified base. The modified base, in some instances, has

¹According to the circular, other bases may be used where it can be demonstrated that they produce more equitable results. In addition to this provision, the circular states that where the total direct cost of work covered by the circular at an institution does not exceed \$3,000,000 in a fiscal year, the use of a salary and wage distribution base is allowable if the results are equitable to the Government and the institution. The purpose of this provision is to make available a simplified method for small institutions to use in calculating their overhead rates, bases, and costs allocable to individual contracts/agreements.

resulted in sizable increases in AID's overhead costs. For example, he said costs for one contract increased some \$300,000 due largely to using the modified total direct cost base. We also noted that in one contract we reviewed, the AID contract negotiator pointed out that one amendment was issued, in part, to provide additional funds for increased overhead costs due to the adoption of the modified total direct cost method.

According to the Chief, the changes in bases caused contractual dollar limits for overhead to be reached in at least 10 contracts awarded by the Office of Contract Management's Asia Branch, the Africa Branch, and the Agriculture and Nutrition Branch. Once these limits are reached, AID's choices are to reduce the scope of the contract or increase the contract costs.

In a June 13, 1983 letter to the Director, Office of Procurement and Assistance Policy, HHS, the Director of AID's Office of Contract Management stated that

". . . we now believe that special operating factors may be present which would justify the establishment of separate indirect cost rates for A.I.D. activities.

"With the advent of the Modified Total Direct Cost (MTDC) base under OMB Circular No. A-21, indirect costs in a substantial number of our ongoing projects have approximately doubled. This occurs because the standard MTDC base established in the DHSS rate agreement includes costs which may be peculiar to A.I.D. work and which are often a substantial part of the total estimated cost."

Cited examples of costs peculiar to AID work were: training costs for foreign students who are administratively supported on campus within direct costs; international travel and transportation costs; overseas living and educational costs paid to university staff; foreign currency costs for local employee salaries, in-country transportation, and materials. AID believes that such costs generate little overhead or administrative expense. As pointed out by AID's Office Director in the letter,

". . . Because these direct costs are fully burdened, A.I.D. may be paying more than its fair share of indirect cost under acquisition and assistance agreements with educational institutions." "In view of the seriousness with which we view this matter, we request a meeting. . . ."

In July 1983, AID's Chief of Overhead and Special Costs Branch met with the HHS official in charge of overhead costs. According to the AID Chief, the HHS official acknowledged that

AID's concerns were legitimate; that is, when the modified base policy was established, costs such as local currency and transportation, now drawing overhead, were not considered. Nevertheless, on the matter of relief for AID, the HHS official is reluctant to provide AID a separate indirect cost rate because HHS has more than 600 overhead rate agreements with educational institutions and the agreements are negotiated through July 1, 1986.

In September 1983, we talked with HHS officials about what items constituted the modified total direct cost base and whether AID's overhead costs increased from applying the new base. HHS officials confirmed that local currency costs, overseas allowances, and international travel costs are included in the modified base; however, HHS does not know whether AID's overhead costs have increased from applying the modified base because AID has provided no supporting analysis. An HHS memo had suggested to AID that a more practical way for AID to deal with overhead cost increases is to address these matters in program policy documents or in the specific terms of individual awards.

PRIVATE FOUNDATIONS' OVERHEAD RATE PRACTICES

For informational purposes, we compared AID overhead policies and practices with those of selected private foundations. Although the federal government is willing to pay for part of an organization's general ongoing costs, information provided by two large foundations indicate that on the whole, many private foundations are not. Generally private foundations pay only overhead that can be directly attributed to a project.

One foundation provides overhead if the grantee can explicitly detail the costs and show that they apply directly to a project. Such overhead usually includes office rental, telephones, postage and photocopying. The policy is that the foundation does not provide overhead for the general support of the basic operations of an organization, but the foundation does work with the grantee to see that the direct costs of a particular project are as fully covered as possible. Some items which, under a federal grant or contract, would be classified as overhead or indirect costs may be treated by a foundation as direct costs, when the justification appears especially strong.

The policy in the second foundation is that grant funds may be used only for those indirect costs that are closely related to the purpose of the grant. The amount of reimbursement varies according to a number of factors; for example:

- If a research grant is made to an educational institution, no overhead is provided to cover costs of student and alumni activities, general

fund-raising efforts, athletic programs, and the like.

--If a grant is made to one organization for sub-grants to other organizations, the costs actually incurred by the first organization may be smaller and allowable overhead may accordingly be proportionately smaller.

Another foundation was reported to have adopted an experimental policy that permitted a range of overhead rates based on direct costs. In addition, the foundation would on occasion make separate grants for institutional administrative costs if the foundation believed the organization should be strengthened. On the whole, however, foundations try to minimize overhead costs by leaving overhead costs not related to the project out of the grant altogether.

CONCLUSIONS, AGENCY COMMENTS AND OUR EVALUATION

The audits of overhead costs do not appear to generate serious questions about the propriety of overhead rates, bases, and costs claimed even though an audit may be made several years after the overhead costs are incurred.

For contracts with educational institutions, AID officials believed that the use of the modified total direct cost base resulted in AID absorbing more than its fair share of overhead costs. While we did not question the concept of using the modified base, we recommended in a draft of this report that AID analyze and document the extent to which overhead costs for its educational institution contracts have increased and take actions to limit overhead to the agency's fair share.

In commenting on our draft report, AID stated that the change in methodology for distributing overhead costs created an initial impression that overhead costs under AID contracts were being increased. AID noted that in fact total overhead dollars recovered by educational institutions under federally sponsored agreements had not changed and that its subsequent experience with the modified total direct cost base has not shown that AID is absorbing more than its fair share of overhead costs. After considering AID's comments we deleted the recommendation contained in our draft report.

CHAPTER 5

CONTRACTOR PERSONNEL

AID gives considerable weight to the qualifications and availability of individual contractor personnel in selecting contractors. But key personnel promised to implement contracts are not always provided and others are often substituted. This chapter discusses some of the causes and effects of personnel switching, as well as possible solutions to the problem.

CAUSES AND EFFECTS OF SWITCHING PERSONNEL

According to AID staff, contractors switch personnel for two primary reasons; one is understandable, but the other may need to be addressed by AID. The first reason is apparently unintentional and occurs because of the time lag between proposals and contract performance. That is, during contract proposals, the contractor projects that the qualified people will be available; however, by the time the contract is awarded and performance is to begin, these personnel may have taken jobs elsewhere. AID considers the switching of personnel under these circumstances as being legitimate, so long as comparable personnel are provided and written permission is obtained from AID.

The second reason is not seen as legitimate and is termed "bait and switch" by AID staff. That is, the contractor presents the names of desired personnel to get the contract but with apparent intent to substitute others whose performance may or may not be satisfactory.

According to AID staff, personnel switching happens quite often but it is not clear how many cases are legitimate. As noted in chapter 3, participants in AID's project implementation course identify their most pressing problems and make recommendations to solve them. According to the July 1982 report summarizing 305 participants' feedback from the first 10 sessions, the main problem perceived with contractors was "bait and switch."

Personnel switching, whether intentional or unintentional, can adversely affect project implementation. For example, a contract to create a population research center in Nairobi, Kenya, identified by name three personnel considered essential to the project. Two of them withdrew from the project after the contract had been signed. The contractor experienced great difficulty recruiting adequate replacements, causing the technical assistance element of the project to fall about 1 year behind schedule.

POSSIBLE SOLUTIONS

AID's project implementation course participants recommended that, to minimize the problem of personnel switching, AID

(1) require that letters of intent be included in contractor proposals, (2) give missions veto power over nominations, (3) give project officers the option to cancel contracts and start the process again, and (4) not award contracts to contractors that continuously switch proposed staff.

Also, various AID staff at the missions visited made these suggestions for minimizing personnel switching.

- If the proposed key personnel do not show up in-country, AID should cancel the contract and go to the next highest qualified contractor that submitted a proposal.
- AID could impose penalties, i.e., cut the contract fee or profit or require that bonds be posted to ensure that personnel promised are the personnel provided.
- AID should require contractors to provide letters from the proposed key personnel saying that they will be available during the contract implementation time frame.
- Requests for proposals should state that firms which replace key personnel could be disqualified.
- AID should keep a record of each contractor's ability to produce key personnel listed in the bid proposal and consider this information in future awards.

AGENCY COMMENTS AND OUR EVALUATION

For technical service contracts, AID said that it would remind contracting officers that is often more appropriate to establish minimum acceptable qualifications instead of naming individuals for contract performance. Under such conditions, AID noted that if contractors do not provide qualified personnel, it is a breach of contract and appropriate remedies are available. We believe this action is a step in the right direction toward minimizing the problem of personnel switching. Another important step the Agency could take in our view would be to keep a record of each contractor's ability to produce qualified personnel and consider this information in future awards.

CHAPTER 6

AID MONITORING OF CONTRACTOR

PROGRESS CAN BE STRENGTHENED

Adequate monitoring of contractor progress is essential to achieving contract objectives. AID monitoring of contractor progress can be improved by (1) including progress indicators in contracts as part of the scope definition and, (2) requiring that contractor reports address progress made toward established indicators rather than generalized descriptions of work performed.

Contract monitoring can also be improved if AID management (1) enforces contractor reporting requirements, (2) improves project site visits and related documentation, and (3) maintains more complete contract files.

CONTRACTS AND PROGRESS REPORTS LACK PROGRESS INDICATORS

We reviewed 37 active contracts and found that 28 of them lacked progress indicators. Progress indicators are specific benchmarks, events, or circumstances that permit comparisons of the planned progress of the contract with actual performance at particular times. Without them, effective monitoring of contractor performance becomes extremely difficult. Such monitoring is essential for the timely identification of possible problems and corrective actions.

AID's Project Officers' Guidebook and Handbook 3, chapter 9, stress the importance of clear indicators in contracts. The guidebook also points out that contracts should require contractors to submit periodic reports and should specify format, style, content, addressees, and number of copies; report due dates should be keyed to specific progress indicators in the contract, thereby furthering their value as a management tool.

The following paragraphs give examples and discuss causes and effects of lack of progress indicators in contracts and progress reports and offer suggestions to help resolve the problem.

In the contract for water management in Egypt, the reporting requirements of the contract were very vague at the time of the award in 1977 and continue to be vague. The original contract did require quarterly reports covering the status of the work under the contract, including the expenditures during the report period and the cumulative expenditures; however, the contract is silent as to what specific kinds of information are to be provided, what form it is to be presented in, and whether

reported information needs to be keyed to specific progress indicators. Almost 5 years after the original contract award, an amendment extended the contract 2 years to June 30, 1984, and added 10 reports to be submitted by the contractor; however, the contract is silent as to when or how often they are to be submitted and as to what exactly is to be reported. Quarterly reports for 1983 describe project activities during the reporting periods but do not compare reported progress with what was planned, nor do they explain why progress has or has not been achieved.

In a contract for English language training in Egypt awarded in 1981, the only provision for contractor progress reports reads:

"An annual summary report will be submitted to the USAID project manager 30 days after completion of instruction and testing required (i.e., on or about 1 September 1982). The report will survey activities and evaluate overall the year's program."

The first annual report, dated January 11, 1983, explains activities performed but makes no comparison with what was to be accomplished as stated in the contract. In this contract, such a comparison could have easily been reported since the statement of work and progress indicators were very specific.

In the 1981 contract for providing technical advice to the basic village project in Egypt, the contractor's progress reports merely summarize activities carried out during the reporting period, with no comparisons with what was planned. The project officer confirmed that progress indicators did not exist.

The contract awarded in 1977 for a population research center in Nairobi, Kenya, required semiannual reports measuring project status against approved work plans; however, the only contractor progress report we were able to find in the project files merely detailed project activities without any comparison with the plans. Also the report format was to be worked out with the contractor at a later date. According to the contractor, this was never done.

For the East Africa regional contract, signed in 1978, for resource assessment and management, the contractor told us that AID never specified a progress reporting format or content; the format used was designed to meet the contractor's needs. The format used reports on activities carried out but does not identify progress indicators nor compare actual progress to what was planned to be accomplished.

Four of AID/Panama's largest contracts--signed in 1981 and 1982--lack progress indicators which specifically quantify

progress against expenditures of time and money. These contracts required periodic reporting by the contractors on their activities and progress. Three of the contracts required detailed work plans, after the contractors' arrival, but only one required that the work plan include how and when specific activities in the plan would be carried out.

A detailed examination by AID's IG of 12 AID/Washington-funded and managed projects (report number 81-20, Nov. 1980) also pointed out that project officers frequently were not putting quantifiable targets, identified in project papers, in contracts. The IG report also stated that contracts frequently did not indicate what data should be included in progress reports. As a result, some progress reports include information of no value to monitoring the project, according to the IG report; thus, the time and resources spent on reporting and monitoring are wasted and AID is paying for this wasted effort.

AID staff at the missions in the Ivory Coast, Kenya, Sudan, Egypt, and Sri Lanka indicated that a major shortcoming of progress reports was that they were too vague and that progress reported was not compared with what was planned. AID staff also stated that without progress indicators, contractors could not be held accountable for contract/project progress; project success was difficult, if not impossible, to measure; and there was less basis for corrective action.

Reasons for lack of progress indicators were similar to those given on p. 20 for vague scopes. The respondents were project officers, who often did not know what specific indicators were needed, did not have time to adequately consider them, or lacked the proper training or technical expertise to develop them.

The following two examples show actions taken to include progress indicators in contracts and contractor progress reports.

An August 1982 IG audit report stated that contractor progress reports for a 1979 contract for manpower development in Sudan did not readily compare progress with a plan. At the request of the mission, the contractor subsequently provided status reports that followed the project paper, as revised. The revised project paper recognizes changes in project emphasis, expands some activities, and adjusts the magnitude of some outputs. The status reports give individual planned outputs by geographic locations. For each output, an indicator of progress is stated and an explanation compares actual activities with planned outputs and indicators, including why activities did or did not meet expectations.

The 1982 contract for the rural renewable energy project in Sudan neither specified reporting format nor specific information to be in the monthly and semiannual reports. For example,

quantifiable progress indicators for disseminating renewable energy technologies and for studies and analyses to be conducted were lacking. Although more definitive verifiable indicators were available in the project paper, they were not incorporated into the contract.

Although not required by the contract, an implementation plan was prepared which provides progress indicators in such areas as performing a manpower study, conducting participant training, and establishing a library. The first semiannual progress report for the period ended June 30, 1983, was based on the outline of the implementation plan. In our opinion, it provides a very good link between actual contract activities and planned indicators of progress. While every contract facet may not have been covered, a work plan linking contract activities and progress indicators is a valid means to improve monitoring and reporting of contractor activities.

AID staff have also recommended comparisons of reported progress with planned progress indicators, with explanations of why progress was or wasn't achieved. Thirty-two participants from 15 AID missions and AID/Washington, attending AID's "Project Implementation Course" in Alexandria, Egypt, during October and November 1982 recommended that the contractor's performance be measured against specific criteria based on quantitative goals that should be defined in the scope of work and work plan. They also recommended that, if appropriate, quantitatively measurable tasks and the evaluation criteria should be defined.

OTHER FACTORS THAT WOULD CONTRIBUTE
TO BETTER MONITORING AND
REPORTING OF CONTRACTOR PROGRESS

Adherence to reporting requirements, improving project site inspections and more complete project files can also strengthen AID monitoring and reporting of contractor progress.

AID personnel cited the following as causes for inadequate monitoring that generally apply to the areas discussed in this chapter.

- Although increased emphasis is now being placed on project oversight, AID personnel said that the traditional emphasis has been on obligating funds, starting projects, and maintaining a sizable portfolio of projects as opposed to actively monitoring those already in progress.
- Project officers cannot make site visits and monitor progress because of their heavy workload, agency paperwork requirements, mission committee commitments, distance involved, and

regional travel problems (e.g., bad roads and infrequent airline service).

--Some project managers are simply not aware of the depth of project monitoring that is necessary.

--Monitoring some projects requires a technical expertise that is either not available at the AID missions, or if available, not fully utilized.

--Some mission managers do not insist on thorough, accurate, and timely progress reports.

--Project officer continuity is lacking. One contract, for example, has had four project officers over its 4-year life, and according to the contractor, each has managed the project somewhat differently.

Reporting requirements need to be enforced

AID Handbook 3 and the Project Officers' Guidebook recommend that project officers prepare monitoring outlines including schedule and control records for all reports required under a contract and that project officers ensure that contractors submit such reports as required by the contracts. We found that the project officers for the eight contracts reviewed in Egypt, Panama, and the Sudan did not have the recommended schedule and control records.

For the Sudan manpower development contract, an AID IG audit reported in August 1982 that progress reports were not submitted by the contractor as required by the contract; the mission did not enforce the contract requirement, although one memorandum was sent to the contractor requesting the reports. Progress reports were later received as recommended by the IG.

Similarly, reporting requirements were not enforced for the Kenya population research center contract; it required semi-annual reports measuring project status against approved work plans. The contractor's progress reports, however, merely detailed activities without any comparison with the plans.

Project site visits need to be better performed and/or documented

According to AID's Handbook 3, physical inspection is an essential monitoring tool and site visit reports should be prepared and filed by AID staff making the visits. Handbook 3 also provides a format for the reports, including reporting progress compared with schedules, issues, problems, and recommendations

for remedial actions. The Project Officers' Guidebook also points out that project officers should prepare site visit reports highlighting findings and should file copies in contract files.

Of the 18 contracts reviewed at the missions visited, we found no site visits documented in the files for 7 contracts; for 6 other contracts, the site visit reports did not highlight findings as required by the Project Officers' Guidebook.

AID staff said some staff had too many projects to monitor. One AID/Cairo project officer pointed out that monitoring of projects and contractors could occur only to the extent that staff was available. We were told that about 15 AID/Cairo direct-hire personnel were responsible for about 140 contractors representing a total of about \$1.3 billion in direct and host country contracts/projects. Another AID/Cairo office has 4 people responsible for about 6,000 subprojects, 100 contractors and 5 major contracts. Thus, AID/Cairo staff said they used local nationals and contractors to help monitor projects and contractors.

Twenty-eight participants from 17 missions and REDSO/EA attending AID's "Project Implementation Course" in Mbabane, Swaziland, in September 1982 identified lack of site visits as an implementation problem. According to the participants, project officers, often lacking personal contact with projects, could not analyze project implementation problems. They recommended that AID increase emphasis on completing site visits and provide the necessary logistical support and operating expenses.

Project files should be more complete

According to the Project Officers' Guidebook, project officers should ensure that contract files are established for each contract they monitor, and that they are kept current. One reason is so that replacement project officers can clearly understand the status of the contracts, their progress, and their problems, and can assume effective monitoring of contracts upon arrival.

We found numerous instances of missing documents in the contract and project files reviewed. For example, we could not find contract amendments, project implementation orders, noncompetitive award justifications, project evaluations, and contractor progress reports.

Incomplete project files do not provide adequate historical data on project activities. With staff turnover, this can seriously affect project officers' ability to understand and monitor project activities. As pointed out by 30 participants from 13 AID missions attending AID's "Project Implementation Course" in September 1983, the high rate of turnover of AID

staff contributes to slow project implementation due to lack of continuity. The participants recommended that AID require project officers to update project documents/files as part of their check-out at missions and require overlap of project officers.

Twenty-eight participants from 17 AID missions and REDSO/EA attending AID's "Project Implementation Course" in September 1982 also identified incomplete files as a major implementation problem. According to the participants, often project officers arriving at post are not briefed on project status and files are incomplete; thus, the transfer of responsibility between project officers is often not smooth, creating inefficiency, confusion, wasted time and discontinuity in implementing projects.

CONCLUSIONS

Because most contracts reviewed lack progress indicators, contractor progress reports tend to contain generalized descriptions of project activities, instead of assessments of actual versus planned performance. As a result, the extent to which contract activities and objectives are being accomplished and the extent to which contractors should be held accountable are difficult, if not impossible, to determine.

Contractor status reports should clearly show actual versus planned progress. To do this effectively, progress indicators and reporting formats should be established as early as possible in the contracting process. Ideally, they should be clearly reflected in the scope of work. Alternatively, they can be provided for in detailed work plans or developed from project papers and their revisions.

In addition, project officers need to better monitor contractor performance; in particular, they need to prepare schedule and control records for reports required under contracts and ensure that contractors submit them. Also, project site visits need to be better performed and documented. Finally, project officers should ensure that incomplete files are updated and should brief their replacements.

To improve contract monitoring, we urge better compliance with existing AID requirements for clear progress indicators and for periodic reports following AID's stated format and content.

AGENCY COMMENTS AND OUR EVALUATION

AID recognized that contract monitoring could be improved. AID said that it would stress to project and contract personnel through the "Contracting for Non-Procurement Personnel" and the "Project Implementation Course" training courses the need to establish progress indicators for assessing contractor performance, and to clearly define reporting requirements. AID also noted that recently established certification procedures require

project officers to certify that they have visited project sites, that they have met with host country counterparts, and that they have sufficient information for administrative approval of contractor vouchers submitted for payment. We believe these are steps in the right direction toward improving contract monitoring. In our view the need for progress indicators should not only be stressed in training courses but also should be stressed by bureaus, offices, and missions when they develop contract requirements and review contractor progress reports.

Examples of Increases to Contract
Costs by Contract Amendments
 (for 27 Contracts as of April 30, 1983)

<u>Contract number</u>	<u>Total estimated costs at award^a</u>	<u>Amendments increasing costs</u>	<u>Revised total estimated costs (as of 4-30-83)</u>
	- - - - - (thousands) - - - - -		
1	\$ 665 ^b	\$13,317	\$ 13,982
2	4,413	1,756	6,169
3	5,300	1,053	6,353
4	4,017	1,072	5,089
5	3,515		3,515
6 (note c)			
7	145 ^b	299	444
8	2,240	988	3,228
9	4,374 ^b	37	4,411
10	12,497	215	12,712
11	7,497 ^b	3,403	10,900
12	2,059 ^b	8,352	10,411
13	184 ^b	4,637	4,821
14	5,410	648	6,058
15	388	162	550
16	3,218 ^b	1,100	4,318
17	5,000	33	5,033
18	895	4,440	5,335
19	6,048	1,452	7,500
20 (note c)			
21 (note c)			
22	5,990 ^b	5,758	11,748
23	1,473	1,138	2,611
24	887	948	1,835
25	2,460	18	2,478
26	1,335 ^b		1,335
27	1,928 ^b	999	2,927
	<u>\$81,938</u>	<u>\$51,825</u>	<u>\$133,763</u>

^aTotal estimated costs at award are the amounts originally awarded for the entire duration of the contracts except that in contract number 1, total costs were not established for the 5-year contract but rather \$665,000 was awarded for the first 18 months of the contract.

^bAID originally awarded these 10 contracts noncompetitively on the basis of predominant capability. The remaining 14 were awarded competitively.

^cContracts 6, 20, and 21 are mission-awarded contracts for which contract award data was incomplete at the time of our review.

Examples of Extensions to Contract
Terms by Contract Amendments
 (for 27 Contracts as of April 30, 1983)

<u>Original contract term</u>	<u>Original completion date</u>	<u>Revised completion date</u>	<u>Increase in contract term</u>	
1. 5 yrs. ^a	1-10-82	9-30-83	1 yr.,	9 mos.
2. 5 yrs.	7-02-85	-	-	-
3. 3 yrs., 9 mos.	3-31-83	6-30-83		3 mos.
4. 4 yrs.	8-01-83	-		-
5. 4 yrs	5-31-83	-		-
6. (note b)				
7. 6 mos. ^a	1-31-82	1-31-83	1 yr.	
8. 4 yrs.	9-29-82	9-30-84	2 yrs.	
9. 5 yrs. ^a	8-31-85	-		-
10. 5 yrs.	9-30-84	-		-
11. 3 yrs. ^a	9-30-82	4-30-84	1 yr.,	7 mos.
12. 10 mos. ^a	6-30-74	12-31-83	9 yrs.,	6 mos.
13. 3 mos. ^a	9-30-77	2-28-83	5 yrs.,	5 mos.
14. 3 yrs., 6 mos.	1-31-83	1-31-85	2 yrs.	
15. 3 yrs.	1-31-83	6-30-83		3 mos.
16. 3 yrs. ^a	5-31-81	7-31-83	2 yrs.,	2 mos.
17. 4 yrs., 5 mos.	7-22-82	10-28-84	2 yrs.,	3 mos.
18. 2 yrs., 5 mos.	5-31-78	9-30-84	6 yrs.,	4 mos.
19. 7 yrs.	3-31-86	-		-
20. (note b)				
21. (note b)				
22. 5 yrs. ^a	7-30-82	6-30-84	1 yr.,	11 mos.
23. 4 yrs., 2 mos.	6-30-83	6-30-84	1 yr.	
24. 1 yr., 3 mos.	9-30-82	7-31-84	1 yr.,	10 mos.
25. 5 yrs.	9-30-84	-		-
26. 3 yrs. ^a	9-25-83	-		-
27. 4 yrs. ^a	9-25-83	9-30-85	2 yrs.	

^aAID originally awarded these 10 contracts noncompetitively on the basis of predominant capability. The remaining 14 were awarded competitively.

^bContracts 6, 20, and 21 are mission-awarded contracts for which contract award data was incomplete at the time of our review.

AGENCY FOR INTERNATIONAL DEVELOPMENT

WASHINGTON, D C 20523



ASSISTANT TO THE ADMINISTRATOR
FOR MANAGEMENT

12 APR 1984

Mr. Frank C. Conahan
Director
National Security and International
Affairs Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Conahan:

Thank you for the opportunity to comment on your draft report, "Improving the Management of Direct Contracting in the Agency for International Development," (GAO/NSIAD DA472024), transmitted by your letter of March 16, 1984.

Our comments are appended. They are arranged and identified by Chapter number to coincide with the Chapters of your report. We have no comments on Chapter 1.

We would be pleased to meet with you or members of your staff to clarify any questions about our comments.

Again, thank you for the opportunity to comment on your report.

Sincerely,

A handwritten signature in black ink, appearing to read "R. T. Rollis, Jr." with a stylized flourish at the end.

R. T. Rollis, Jr.
Assistant to the Administrator
for Management

Attachment:
Comments on Draft Audit Report

Chapter 2

Recently enacted Public Law 98-72 and implementing procurement regulations make it harder for agencies to award sole source contracts. This law, which requires advance publicizing in the Commerce Business Daily of all proposed contract awards in excess of \$10,000, coupled with the advance planning requirements in the newly issued Federal Acquisition Regulations, provide an environment for advance planning for competition in the award of A.I.D. contracts. Insofar as contract amendments are concerned, we accept your finding that there is insufficient documentation on the reasons for such amendments. Using computer resources, we will analyze the types of contract amendments issued during FY 1984, to see if we can identify possible areas for increasing competitive opportunities.

Chapter 3

Specific guidance on the essential elements of contract statements of work is published in Appendix C of our Project Officer's Guidebook. This guidebook is a working tool used by our project offices in their day-to-day dealing with project implementation problems. Guidance on how to prepare scopes of work is also emphasized in our "Project Implementation" course and our "Contracting for Non-Procurement Personnel" course. Nevertheless, to expand on the already existing materials and courses, we will canvas our overseas missions regarding their requirements for additional training in this area. We are prepared to provide such additional training, which may range from formal courses to self-study modules.

Chapter 4

Government wide procedures for determining appropriate overhead charges to federally sponsored agreements with educational institutions are established in OMB Circular A-21, "Cost Principles for Educational Institutions." Prior to February 1979, Circular A-21 required that institutional overhead be distributed on a salary and wage base. However, in February 1979, the Circular was modified to require that institutional overhead be distributed on a modified total direct cost base consisting of salaries and wages, fringe benefits, materials and supplies, services, travel, and subgrants and subcontracts up to \$25,000 each. The reason for this change was to more

-2-

equitably distribute institutional overhead charges amongst all federally sponsored agreements. In any event, because of this change in the methodology for distributing overhead, budgets in A.I.D. cost reimbursement contracts with educational institutions issued before February 1979 had to be adjusted. This created an initial impression that overhead costs under A.I.D. contracts were being increased. In fact, the total overhead dollars recovered by educational institutions under federally sponsored agreements did not change. Subsequent experience with the modified total direct cost base has not shown that A.I.D. is absorbing more than its fair share of institutional costs, or that there are any specific operating factors requiring separate A.I.D. overhead rates.

Chapter 5

The report suggests several approaches to the problem of contractor switching of key personnel identified in A.I.D. contracts. Our services contract schedule language requires prior AID approval before a contractor may substitute key personnel identified in a contract. In any event, it is appropriate to identify specific persons in contracts for personal services abroad, and in research contracts where the association of specific individuals is often critical to the success of the work. However, for technical service contracts, we will remind our contracting officers that it is often more appropriate to establish key personal requirements in the contract by describing the required functional categories and the minimum acceptable qualifications for each category, instead of naming individuals. For example, for the functional category "Agronomist," the minimum acceptable qualifications are: a doctorate in agronomy, ten years experience in tropical agriculture, and a tested S-2/R-2 Spanish language capability. Under such conditions, it is the contractor's responsibility to provide a suitable person with these qualifications. If he fails to do so, for whatever reason, it is a breach of contract and appropriate remedies are available.

Chapter 6

We recognize that our contract monitoring can be improved. As noted in the report, written instructions and guidance are already established in a number of AID Handbooks and other issuances. We will continue to stress to project and contract personnel through the "Contracting for Non-Procurement

-3-

Personnel" and "Project Implementation" courses, and at other opportunities, the need to establish benchmarks for contractor performance and clearly define reporting requirements. As an aside, we have recently established a new certification procedure under which the project officer must certify that he or she has visited the project site, that he or she has met with host country counterparts, and that there is sufficient information to support administrative approval of contractor vouchers submitted for payment.

(472024)

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